

RDS to Part D: It's Time to Transition *in 2027*

The Retiree Drug Subsidy (RDS) was a government-funded program established in 2003 to assist employers and unions in providing prescription drug coverage to their retired employees. Even after Medicare Part D prescription drug plans were first sold in 2006, many plan sponsors chose to remain on their commercial plans and collect RDS reimbursements. **Decades later, the landscape has changed.**

Why consider alternatives to RDS?

RDS plans can't receive subsidies under the Manufacturer Discount Program and federal reinsurance program

It continues to be more difficult to qualify for RDS as a result of the IRA

Fewer member claims will be eligible for RDS reimbursement due to drug pricing trends and increased utilization

RDS may not be financially advantageous in 2027. Here's why.

Discounts & Subsidies

When a Part D enrollee meets their \$700 annual deductible in 2027, they enter an initial coverage phase until they reach an annual out-of-pocket (OOP) spending cap of \$2,400. In this phase, the drug manufacturer typically covers 10% of the cost of applicable drugs and the federal government pays a 10% subsidy for selected drugs.¹

After reaching the OOP spending cap of \$2,400, Part D enrollees enter a catastrophic phase where the drug manufacturer pays a discount, typically equal to 20%, for applicable drugs. The federal government pays a reinsurance subsidy equal to 20% of the costs of applicable drugs and 40% of the costs of all other covered Part D drugs that are not applicable drugs, including selected drugs, during a price applicability period.¹

Commercial plans, like RDS, are ineligible for these discounts and subsidies.²

Creditable Coverage Qualification

RDS plans must provide prescription drug coverage that is as generous as, or more generous than the defined standard Part D coverage³—including the member's out-of-pocket costs. This qualification is known as creditable coverage. After changes from the Inflation Reduction Act (IRA) made Part D benefits richer, **it became more challenging for RDS plans to qualify as creditable compared to prior years, without moving to a more costly benefit design.**

RDS Reimbursement Eligibility

The future of RDS will also be affected by drug pricing trends. In 2027, CMS will reimburse RDS plan sponsors the equivalent of 28%⁴ of all allowable retiree drug expenses that fall between the federally designated cost threshold (\$700) and the cost limit (\$14,000)⁵, after the removal of actual cost adjustments.

Fewer member claims will fall between the threshold and limit due to drug pricing trends. The wide availability of cheaper generic and biosimilar medications along with expensive gene therapies have made prescription expenses either too cheap or too expensive to qualify for RDS reimbursement.⁶

Explore potential savings with an advisor. Here's how.

Work with an actuary to evaluate if your current plan will be credible and what the subsidy projections with RDS will be. You may need to enhance your commercial plan benefits to meet new qualification criteria, or consider a Medicare Part D alternative that could be more financially advantageous.

Connect with an advisor at LaborFirst for an assessment and review of current options. In our quickly evolving healthcare system, you need a strategic approach to market analysis and plan design. LaborFirst has been the leader in Retiree Benefits Management, dedicated to improving outcomes and satisfaction for plan sponsors and their retiree members.

In addition to plan strategy, LaborFirst specializes in guiding our clients and their retirees through the transition from RDS to a Medicare Part D plan. From implementation to ongoing administration and healthcare advocacy, our support and services are comprehensive and ensure simplicity and continuity of care for members.

Book a meeting with an advisor at [LaborFirst.com/contact](https://www.laborfirst.com/contact).

SOURCES

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- 2 Dickett, M., Lin, J., & Wanta, T., (2024). *Battle Royale: Part D EGWPs vs. RDS plans in the era of the Inflation Reduction Act*. Milliman. <https://www.milliman.com/en/insight/battle-royale-part-d-egwp-vs-retiree-drug-subsidy>
- 3 Centers for Medicare & Medicaid Services, (2026). *RDS: General Program Information*. <https://www.rds.cms.hhs.gov/common-questions/general-program-information>
- 4 Centers for Medicare & Medicaid Services, (2026). *Mandatory Payment Reduction*. <https://www.rds.cms.hhs.gov/regulations-guidance/mandatory-payment-reduction>
- 5 Centers for Medicare & Medicaid Services, (2026). *Cost Threshold and Cost Limit by Plan Year*. <https://www.rds.cms.hhs.gov/regulations-guidance/cost-threshold-and-cost-limit-plan-year>
- 6 Dulczak, J. P., (2024). *Retiree Drug Subsidy changes: New benefit options for employers to consider for 2025*. BenefitsPRO. <https://www.benefitspro.com/2024/03/19/retiree-drug-subsidy-changes-new-benefit-options-for-employers-to-consider-for-2025/>

More on the Transition from RDS



WATCH a webinar recording of “Trends in Group Retiree Benefits”—with real scenarios of groups saving millions in costs by transitioning from RDS—at [LaborFirst.com/webinars](https://www.laborfirst.com/webinars).



READ insights from LaborFirst CEO John P. Dulczak in “Retiree Drug Subsidy Changes: New Benefit Options for Employers to Consider” at [LaborFirst.com/blog](https://www.laborfirst.com/blog).

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